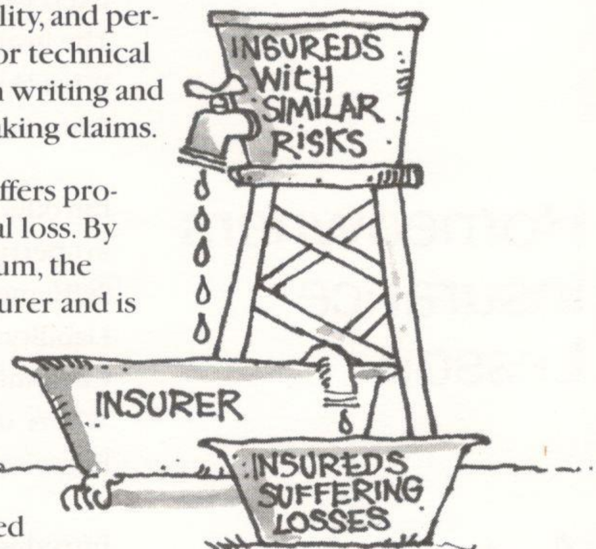
Contents

INTRODUCTORY LESSON

What Is Insurance?

Insurance policies can be difficult to understand and even more difficult to explain to your customers. Few customers are knowledgeable about insurance, and yet they have very real insurance needs – for automobile and homeowners insurance and, in some cases, for extended coverage for personal articles, personal liability, and personal boats. They look to you for technical knowledge and guidance when writing and renewing their policies and making claims.

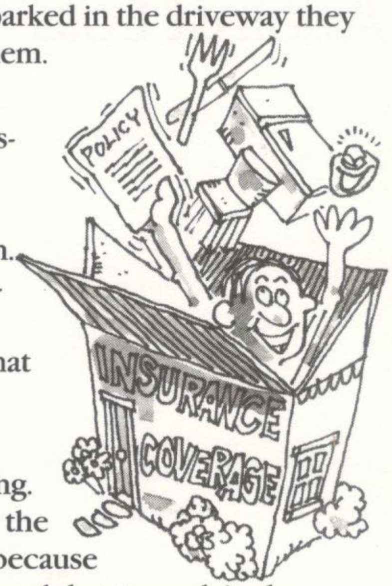


Insurance is a product that offers protection from the risk of financial loss. By paying a relatively small premium, the insured transfers risk to the insurer and is protected from a much larger loss. The insurer shares risk by collecting premiums from many insureds and pooling the premiums in a large reserve fund. While each insured may experience occasional losses, these happen only on an irregular and uncertain basis. Losses that do occur are paid from the reserve. The diagram above summarizes this relationship.

As a product, insurance is much like other products our customers buy. Insurance companies – like other manufacturers – identify profitable groups of customers, design products with benefits that will attract those customers, and then sell those products through distributors (agents and brokers). Yet most customers fail to recognize the benefits of insurance as readily as they do the benefits of other products. Consider the example of a car that was used in the video.

Customer need:	TRANSPORTATION	INSURANCE
Product:	CAR	POLICY
Benefits:	STATUS AND STYLE LUXURY ECONOMY	PROTECTION PAYMENT OF LOSSES LESS WORRY

Car manufacturers design cars with features and styling that will appeal to specific customer groups. Through advertising they highlight those special features and–with the help of car dealers–convince prospects to buy. Car buyers have little trouble appreciating the benefits of their purchase. Whenever they drive their cars or see them parked in the driveway they are reminded of what the product does for them.



Not so for insurance policies. Insurance customers purchase policies, file them away, and in most cases are reminded of the insurance only when it is time to pay the premium again. Since actual losses are rare, they equate insurance with the policy–not the protection, the payment of losses, or the good nights' sleep that the policy represents.

This makes your job all the more challenging. You need the technical knowledge to explain the features and terms of insurance policies. But because of the nature of the product, you must go beyond that to explain the benefits of the coverage. You must tell your customers how they will feel once they are covered.

Prospects become insureds because they believe insurance will help them solve a problem or take advantage of an opportunity. They renew their policies because they believe your agency has not forgotten their best interests and because they are getting value-added service. Such service is continuous and repeats itself over policy periods–identifying the prospects' loss exposures, selecting the best coverages, convincing them to use your agency, encouraging them to buy optional insurances, answering questions accurately, resolving billing problems, and addressing their changing insurance needs.

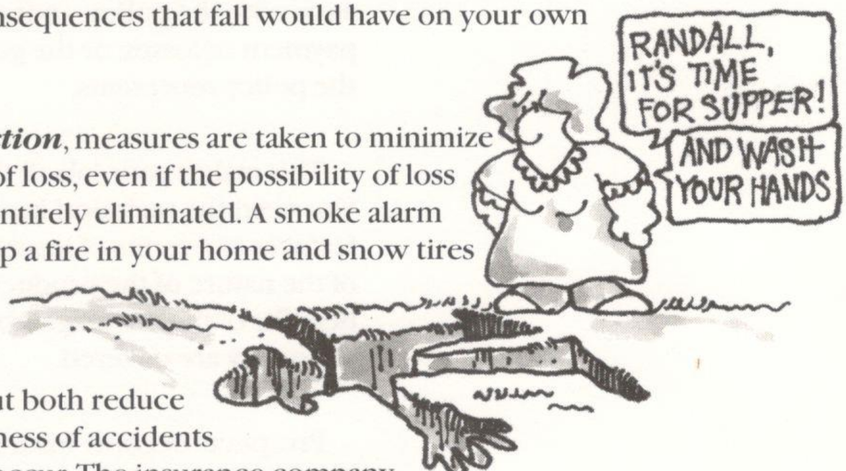
Your answer to the question "What is insurance?" must go beyond policy coverages and features to include those services and benefits your customers will enjoy once they have your product.

Forms of Protection Against Loss

Your customers own property and engage in activities that expose them to loss. Some occurrences causing loss happen on a regular basis, some happen infrequently, some are possible but have not happened yet, some could not happen. By analyzing and identifying the frequency and severity of such risks, the customers' exposure to loss can be reduced or covered.

Insurance is not the only form of protection. In ***prevention***, property or procedures are modified to eliminate any possibility of loss. Giving up skydiving eliminates your liability of falling on someone, not to mention the consequences that fall would have on your own health.

In ***reduction***, measures are taken to minimize the extent of loss, even if the possibility of loss cannot be entirely eliminated. A smoke alarm may not stop a fire in your home and snow tires may not stop your car from skidding, but both reduce the seriousness of accidents that might occur. The insurance company sometimes sends pamphlets and brochures to its customers to advise them on reducing loss.



In ***retention***, the customer decides to retain those risks that are relatively inexpensive. When deciding not to carry collision coverage on an older car, the customer is retaining risk. Any losses resulting from damage to the car will come out of the customer's pocket. The customer might retain only part of that risk by carrying collision coverage but with a deductible.